

ANNUAL REPORT

For the 24th Year Ended
December 31, 1968

PHOENIX CANADA OIL COMPANY

LIMITED

Phoenix Canada Oil Company Limited

Incorporated in Ontario, Canada, 25 November 1944

Directors

S. DONALD MOORE	Toronto, Canada
CHARLES S. PAYSON	New York, New York
JASON GOULD	New York, New York
EVERETT E. OTT	Toronto, Canada
JOHN A. MURPHY	Toronto, Canada

Officers

S. DONALD MOORE	PRESIDENT
EVERETT E. OTT	SECRETARY-TREASURER

Operating Offices and Foreign Subsidiary Interests

EXECUTIVE OFFICE	Suite 405; 8 King Street, East Toronto, Canada
WESTERN CANADA	Suite 210; 513-8th Avenue, S.W. Calgary, Canada
MINAS Y PETROLEOS DEL ECUADOR, S.A. and PETROLERA YASUNI S.A.	Quito, Ecuador Houston, Texas
PETROLERA GENERAL S.A.	Toronto, Canada New York, New York Wilmington, Delaware
THE BOLIVIA GAS TRANSMISSION CO.	Toronto, Canada New York, New York Wilmington, Delaware
GUYANA	92 Middle Street Georgetown, Guyana

Banking

THE ROYAL BANK OF CANADA	
MAIN BRANCH	Toronto, Canada
and	
MAIN BRANCH	Calgary, Canada

Stock Exchange Listing

CANADIAN STOCK EXCHANGE	Montreal, P.Q., Canada
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Transfer Agents

GUARANTY TRUST COMPANY OF CANADA	88 University Avenue Toronto, Canada
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Auditor

CECIL B. BELL, C.A.	Toronto, Canada
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Capitalization

AUTHORIZED	5,000,000 Shares (\$1.00 par value)
ISSUED	1,921,856 Shares

THE DIRECTORS' ANNUAL REPORT

To The Shareholders

Your Directors are pleased to report this year's singular progress in developing the primary Company holdings in the Canadian Arctic Islands and in Eastern Ecuador, South America. The PHOENIX Arctic interests came into prominence following the mid-1968 announcement of the huge Prudhoe Bay oil strike by Atlantic-Esso on Alaska's North Slope, a region geologically related to the Canadian Arctic. In April 1969, the Canadian Government's partnership with the oil industry, Panarctic Oils Ltd., commenced their first Arctic Islands drilling. Perhaps presaging drilling, Panarctic's 1968 field program concentrated on Northern Bathurst Island and Devon Island's Grinnell Peninsula, the locale of large Company acreage holdings.

We reprint herewith the comprehensive 6 January 1969 Wall Street Journal report on the drama and significance of North America's new Arctic oil frontier — with political and economic implications reaching far beyond the region's promise for the oil industry. Major Arctic oil reserves immeasurably enhance North America's political security. Arctic oil transportation requirements can revise world trade patterns. Many industries will benefit from the technological advances necessary to overcome the difficult logistics of Arctic oil development and marketing. As pioneer Canadian Arctic operators since 1960, the PHOENIX participation in this play is central within the more accessible areas of current exploration interest.

Management policy continues to stress acquisition and preliminary development planning on major natural resource prospects considered to have the potential to attract the later entry of senior capital. To limit financial commitments and risk, thorough legal, political and technical planning — and Shareholder patience — is required. A satisfactory working capital position will be maintained and capital stock dilution will be limited. Commercial success in any single project should be adequately reflected in the Shareholders' equity — based on our relatively modest capitalization.

Canadian Arctic Islands

The Canadian Arctic's oil play has come of age now that the Panarctic combine is drilling their first two wildcat wells on Melville Island (Sandy Point L-46 to 6,000 ft. and Drake Point L-67 to 10,000 ft.), as part of a 17-well program planned throughout the Islands. The Panarctic project is a \$30-million, 5-year program to explore over 44-million acres pooled by over 50 companies. Sought are oil reserves rivaling those of the Middle East, and surpassing North America's presently known reserves. Geologically, the prospects are now considered as favouring success.

We have previously reported on over \$300,000 in exploration surveys conducted over the PHOENIX holdings in 1960-62 by J. C. Sproule and Associates Ltd., renowned Arctic oil geological consultants. Based on favourable geological conditions and prospective structural features determined during the Sproule program, we selected our present interests in 2,344,844-acres, screened from original holdings of 5½-million acres. Without further cost or investment through June 1972 (our Panarctic Farmout Agreements provide for extensions to June 1974), PHOENIX now retains the following:

Island Location	Acreage	Phoenix Working Interest
North and Little Cornwallis & North Central-Northwest Bathurst (including Lowther and Griffith)	1,474,167	34% *
West Devon (Grinnell Peninsula)	298,944	30% **
North Ellef Ringnes	147,823	30% **
South & Central Cornwallis	297,347	10% ***
West Central Bathurst	126,564	15% ****

* Bankeno 30%, Cominco 33%, Harlake 3% (farmed out to Panarctic Project)

** Bankeno 32%, Cominco 35%, Harlake 3% (farmed out to Panarctic Project)

*** Operated by Great Plains (farmed out to Panarctic Project)

**** Great Plains 50%, Bankeno 17½%, Cominco 17½% (Phoenix also holds 2½% gross royalty in 50% of working interest)

The Sproule reports summarize the oil and gas prospects on the PHOENIX holdings by stressing the abundance of porous reservoir and source rocks throughout the region and the relative ease and speed with which potentially productive geological structures may be located and defined. The barren terrain provides universal surface exposure for detailed in-place examination of the entire sedimentary section present in the Arctic Islands. Of particular interest was the discovery that many regional sedimentary rock types, of varying ages and from different formations, emit strong petroliferous odours upon analysis.

The following summary reviews the more prominent prospective structures located and mapped on the Company's acreage during the course of the Sproule photogeological and field geological survey programs:

A. Northwest Bathurst Island

1. Stokes Range Anticline: 11 miles long, 6 miles wide; at least 1,000 ft. of closure and over 20,000 ft. of sedimentary section indicated.
2. Northwest Purcell Bay Anticline: 47½ miles long, 1½ miles wide; over 4,500 ft. of closure and about 8,500 ft. of sedimentary section indicated.
3. Combined Chubb Point and Alexander Anticline: 24 miles long, 3 miles wide; about 4,500 ft. of closure and 11,000 ft. of sedimentary section indicated.

4. Pell Inlet Anticline: 9 miles long, 1½ miles wide; about 2,500 ft. of closure and 10,500 ft. of sedimentary section indicated.
5. Ten major anticlinal structures were mapped; the foregoing were deemed the more important "priority" structures. Also reported were "myriad minor structures which might elsewhere appear to be of considerable interest" and which are available for later development.

B. North and Little Cornwallis Islands

1. Cape Gell Anticline: 22 miles long, 12 miles wide; about 4,500 ft. of sedimentary section indicated.
2. Centre Anticline: 18 miles long (on Company acreage), 10 miles wide; about 5,000 ft. of sedimentary section indicated.
3. Baillie Hamilton Island Anticline: 15 miles long, 7½ miles wide; about 9,000 ft. of sedimentary section indicated.
4. Several other structural features, both anticlines and faults, were located and are considered prospective because of indicated hydrocarbon trapping; included are the Lady Hamilton and Templeton Bay Anticlines and the Eleanor River, Riddle Point and Rookery Creek Faults.

C. Devon Island (Grinnell Peninsula)

1. Inglis Anticline: 20 miles long, over 20 miles wide; about 7,000 ft. of sedimentary section indicated.
2. Barrow Harbour High: 10 miles long, 4 miles wide; 3,500 ft. of sedimentary section indicated.

D. Lowther Island

Located at the boundary of three major geological units; the Arctic Lowlands, Parry Island Fold Belt and Boothia Arch, the Island contains extensive fault trends tending to create prospective structures.

E. Griffith Island

Located 10 miles southwest of Resolute Bay, Cornwallis Island, the South Griffith Anticline is 4 miles long, 2 miles wide; about 5,000 ft. of sedimentary section indicated.

The continuing string of recent Alaskan wildcat successes proves the Arctic a habitat of major oil reserves. Oil industry history proves that prolific wildcat oil discoveries inevitably lead to further finds. Active Arctic exploration is assured for decades to come. North America's deficit oil position and Canada's favourable political climate offset the obviously difficult logistics which require very large investment before the first returns. But the vital crude oil import markets of Eastern Canada are in large part assured; 1968 imports totalled 488,000 bbls/day; 300,000 bbls/day of new refinery capacity is under construction; 1975 imports are projected at 663,000 bbls/day.

Successful exploitation of the Arctic's oil potential will require innovation and the dedication of the best brains in the industry. A dramatic, early example is the current \$25-million conversion of the 115,000-ton U.S. flag supertanker Manhattan for its historic August-September voyage through the Northwest Passage to prove a water route for Arctic oil to Eastern U.S. and Western European markets. Years before the Alaskan discoveries, Dr. J. C. Sproule judged that the rewards would merit the risks: "The Canadian Arctic Islands afford independent oil companies the best opportunity in the world to develop into major companies. Never before has an independent had the opportunity to become a major oil company at such low cost." Dr. Sproule then forecast that Arctic reserves would be "much easier to develop than in Western Canada, mainly because of the ease with which very large and prospective structures can be identified and delineated, due to the abundance of rock outcrop" and that the Arctic Islands encompass "the largest single known undeveloped oil basin in the Western Hemisphere."

**Eastern
Ecuador
Oil
Concession**

Dramatic oil industry history was made in March 1969 when the Texaco-Gulf 50-50 partnership announced their 1,328 bbls/day Sacha #1 wildcat oil discovery on a location (see map herein) practically centered within our Eastern Ecuador 3,710,000-acre royalty and carried interest oil concession holdings. The Sacha strike is fitting tribute to PHOENIX perseverance in this remote, trackless Amazon Basin region dating from early 1963. Between August 1937 and 1950, Shell Oil alone to 1948, and with Esso to 1950, spent \$40-million on unproductive exploration, including six dry holes. Yet, from April 1967 to April 1969, Texaco-Gulf posted an incredible 100% wildcat success ratio — 8 discoveries in 8 exploratory wells (including recent successes in adjacent Colombia, the record is 10 finds in 10 tries).

Texaco-Gulf have reportedly spent \$20-million to date. Over the next 3 years, a further \$200-million is slated for exploratory and development work. Not included is the Pacific Coast pipeline, over the Andes; an investment of at least \$120-million for a 24"-line with a capacity of at least 150,000 bbls/day, targeted for completion in 1971.

PHOENIX, in partnership with Norsul Oil & Mining Ltd., jointly holds a 2% gross royalty on the 1,650,000-acre Texaco-Gulf block and carried net profits interests in about 2,060,000 acres

operated by the World Ventures Group (several Murchison Interests, including Kirby Industries and others, plus the American Independent Oil Co. — Aminoil — combine, which includes Phillips, Signal, Ashland and others); 15% carried in 1,100,000-acres and 5% carried in 960,000-acres. Within a mile of our royalty block border, the Shushufindi #1 discovery tested 5,117 bbls/day through a restricted production tubing choke; because of the sizeable indicated potential, it is reasonable to assume that this productive structure can extend into our holdings. The first World Ventures Group drilling is expected late this year or early 1970. The Group have already spent about \$3-million on preparatory geological and geophysical surveys.

PHOENIX assumed responsibility for maintaining this large, now valuable, oil concession project in good standing since first negotiating the Norsul association in March 1963. During 1963-64, PHOENIX and associated financial interests provided funds aggregating over \$80,000 to meet critical tax and work commitments to the Ecuador Government to secure the original Pastaza Concession Contract (issued 18 August 1961) from certain loss by forfeiture. Deriving from a series of Norsul agreements during that period, PHOENIX acquired its 60.2% undivided interest in the oil assets of our joint operating subsidiary, Minas y Petroleos del Ecuador, S.A. The Texaco-Gulf participation developed from your Management's January 1965 meetings with Texaco at their Latin American head office in Trinidad. Subsequent Management negotiations with the World Ventures Group were undertaken with their senior technical consultant, and a Group principal, in Houston, Texas in August 1965. With the completion of the Texaco-Gulf and World Ventures Group agreements, exploration and development responsibilities were undertaken by these partners. No further Phoenix-Norsul expenditures nor association were necessary. We have therefore commenced a legal action to secure severance, distribution and independent control of our 60.2% interest in the residual joint oil assets, which include the Texaco-Gulf royalty, the World Ventures Group carried interests, the Texaco-Gulf cash bonus and specified World Ventures production payments.

Bolivia Operations

PHOENIX and associated interests organized two Delaware corporations, Petrolera General S.A. and The Bolivia Gas Transmission Co., for subsidiary operations in Bolivia and elsewhere in South America. United States incorporation qualifies Latin American development projects for consideration under several important Government investment guaranty and loan programs. Both subsidiaries have completed the numerous legal registration requirements for qualification to conduct business in Bolivia; similar registration procedures for Petrolera General S.A. are underway in another country for a related oil exploration project. Associated financial interests have undertaken certain performance bond deposits and project expenditures and commitments aggregating about \$300,000 to date.

Our original interest in Bolivia derived from tenders we submitted in early 1966 pursuant to an international invitation for proposals to develop one of the world's largest iron ore-manganese reserves in Eastern Bolivia, maintained by the Bolivian Government in a Fiscal Reserve since 1939. Our proposals were adjudicated as the most favourable and final awards await the completion of current United Nations studies covering primarily the manganese potential of this region. Recent discoveries of major natural gas reserves in Central Bolivia, otherwise unmarketable, have considerably improved the development economics; direct reduction beneficiation considerably lowers unit transportation costs and results in a higher value product.

As a corollary to the foregoing mineral development project, we have completed extensive engineering studies covering the natural gas pipeline route from Central Bolivia to the Brazilian border, contemplating the iron ore-manganese project as the key intermediate customer of the pipeline system designed to serve one of the world's largest industrial markets in Sao Paulo-Rio de Janeiro, Brazil. Complex Government legal and technical application procedures covering this 30"-408 mile-\$62.4-million project have been completed. This project now requires the formal dedication of Bolivian natural gas reserves sufficient to satisfy financing requirements and the subsequent negotiation of long-term gas purchase and sale contracts.

In January 1968, Petrolera General S.A. concluded an agreement with Bolivian private interests to finance an established mining company—BOMINCO—in which a 50% interest was then acquired. BOMINCO holds several interesting mining properties; of primary interest is the historic Machacamarca silver producer, covering 501.4-acres, which has been rehabilitated for moderate silver and tin concentrate production. Substantial silver reserves are known to be present in the mine's tailings piles requiring only beneficiation costs, without mining expense, for concentration. The property is also reported to contain undeveloped silver vein extensions and several unexploited high-grade tin veins. Following the BOMINCO submission of extensive technical and financial documentation, the Bolivian Government development bank (Corporacion Boliviana de Fomento), operating with Interamerican Development Bank funds, approved under date of 21 May 1969 a US\$200,000 loan for equipment and machinery requirements together with an interim, immediate US\$50,000 loan to continue present preparatory operations. The formal loan commitment includes a specified undertaking to increase the loan to a total of US\$2,000,000 for a future major operation, as developed reserves warrant.

Other Canada Interests

The Company continues to maintain its Snow Lake, Manitoba gold prospect, comprising 18 patented Mining Leases, in good standing. This property adjoins the former gold producer, Nor-Acme gold mines, operated by Howe Sound from 1949 to 1958. In recent years, speculative interest deriving from higher free market gold prices instigated several investment enquiries concerning this property's status, its availability for development and our own plans for its activation.

**Exemption—
U.S. Interest
Equalization
Tax**

Our present and prospective United States Shareholders are advised that all outstanding PHOENIX common shares remain exempt from the provisions of the Interest Equalization Tax as imposed by Section 4911 of the Internal Revenue Code (U.S. Public Law 88-563).

**Financial
Notes**

During 1968-69, the dramatic speculative appeal of the major Alaskan North Slope oil discoveries combined with accelerating international inflationary trends to result in expanded investor interest in the appreciating value of corporate natural resource assets. Your Company retains important interests in extensive, oil-prospective land holdings in the now actively explored Canadian Arctic

Arctic Oil- It Could Set Off A New Era

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THE WALL STREET JOURNAL.
January 6, 1969

By RUTH SHELDON KNOWLES
MELVILLE ISLAND, Canadian Arctic—At the top of the world, only a few hundred miles from the North Pole, lies the largest untapped potential oil basin in the Western Hemisphere, perhaps one of the great oil provinces of the world. It may change the balance of world oil power.

The recent discovery of huge oil and gas deposits on the edges of the Arctic Circle in Alaska and Siberia points a geological finger to the potentialities of the Canadian Arctic basin, where an exploration program is under way as a cooperative venture of a large group of private oil and mining companies and the Canadian government. The consortium, Panarctic Oils Ltd., is betting an initial \$20 million to begin exploration of more than 44 million acres in the belief that the oil is there, that it can be economically competitive in the world market and that man has solved the scientific problems of making one of the world's last and most forbidding frontiers accessible, habitable and profitable.

Unrealized Prospects

Although Vilhjalmur Stefansson, the Arctic explorer, noted oil seepages on Melville Island in 1915, almost nothing was known of the geology and mineral prospects of the Canadian Arctic Archipelago until after the end of World War II. The archipelago's 525,000 square miles of frozen desert islands were formidable to dog teams and small boats. However, beginning in 1955, the use of helicopters enabled the Canadian Geological Survey to complete the geological reconnaissance of over two-thirds of the area in four years. The results, indicating that all the conditions necessary for the existence of big oil fields were present, set off a land rush in 1960 among large numbers of independent Canadian oil companies to lease over 50 million acres.

After the companies spent \$8 million in more detailed geological work and drilled three dry holes, the original enthusiasm began to wane at the end of several years. The independent companies were each faced with increasing work expenditures to hold their permits and had obtained a greater knowledge of the costs and difficulties of Arctic exploration. Most of the companies were preparing to drop their holdings.

The author is a petroleum specialist who has made four trips around the world in the past four years.

J. Cam Sproule, a Calgary consulting geologist and the leading expert on Arctic petroleum geology, and some of the permit holders conceived the idea of a unique oil consortium of private oil and mining companies, the Canadian government and the permit holders. Panarctic Oils Ltd. was formed to take over interests, ranging from 50% to 90%, in land held by the original permit holders. This is 63% of the Arctic lands regarded as potential oil and gas bearing acreage. Panarctic has also acquired 5 million acres in wholly owned permits.

The most unusual feature of the Panarctic consortium is the role and motivation of the Canadian government, which is contributing \$9 million for a 45% equity participation. Unlike most nations who "deal with" the oil industry, Canada is motivated by intense nationalism and a desire to promote Canadian private enterprise and to interest it in helping open the Arctic and Northern Territories, which contain 40% of Canada's land and only 0.2% of its population.

The large American, British and Dutch oil interest in the development of western Canada's oil and gas resources has long been a sensitive subject with Canadians. The government realized that if the Canadian independent oil companies were unable to finance exploration of the Arctic and lost their holdings the acreage would ultimately be developed by the large international oil companies; the Canadian "presence" would not be firmly established in the Arctic. With government participation, Canadian ownership of the Panarctic consortium is now 76%. Yet the Canadian government insisted on taking a minority position, believing that private industry is more capable of managing and developing such programs than the government.

The first phase of the three year exploration program was finished in September with the completion of 600 miles of seismograph lines on Melville Island to provide structural information to select the first drilling sites. Also, drilling and camp supplies were barged in during the short open-water summer season to be ready for the first of a 17-exploration-

Islands and in Ecuador which will be maintained in good standing and developed at no cost to PHOENIX over a period of many years. Company interests being developed in several further, large scale natural resource projects, now in the formative and acquisition stages, are planned to result in comparable long-term participations.

Management policy continues to stress limiting common share capital dilution. Our current working capital position continues to support this policy. Our sole capitalization remains 1,921,856 common shares; maintained unchanged during the past year. There is no senior equity nor funded debt.

Submitted on Behalf of the Board:

S. DONALD MOORE, President

16 June 1969

well drilling program to begin this March.

The most important factor in Arctic exploration is planning, and at least a year's lead time is necessary to prepare a program for continuous operation. The Arctic is cruel and unfriendly in the long winter months of total darkness, when temperatures drop to 60 below, blizzards and ground fog are frequent and winds blow steadily at 30 miles an hour. Even so, drilling operations can be carried on around the clock with snugly protected camps and drilling rigs. However, geological and seismograph operations must take advantage of the brief few summer months when the Arctic wears a pleasant face, the sun shines 24 hours a day, the snow cover melts, gay little Arctic flowers blossom and temperatures can reach a mild 45 above. Although man does not yet live permanently on these starkly beautiful and mountainous islands except at a few scattered joint Canadian-U.S. weather stations, there is a surprising variety of animal and bird life. A visitor is more apt to see muskoxen, foxes, hares and lemmings than polar bears or seals.

Air Age Achievements

Only the air age makes it possible to conquer the Arctic. Ski planes fly in tractors to make air strips for larger planes to fly in heavy equipment and supplies. Panarctic's seismograph program has been carried out with helicopters designed to pick up drilling equipment and recording units and set them down again as quickly and efficiently as and work can be carried out by trucks in the developed areas of western Canada.

The fact that the Arctic Islands are a vast desert belt will in the long run make finding oil easier and cheaper than in many places. Because the islands are so barren of vegetation, soil and snow the rocks are well exposed and outcrops reveal the great depth of the basin, the rock groups it contains, and their probable disposition. Consequently, as Dr. Sproule points out, "Surface geological studies can take the place of hundreds of millions of dollars worth of drilling for stratigraphic information. That is to say, the incidence of dry holes can be greatly reduced by geological studies. As a result of our studies to date, we are firmly con-

vinced that large reserves of oil can be found and produced cheaper on a per barrel basis, than anywhere in western Canada."

Pipelines would be expensive to build and maintain in the Arctic. Water transportation is the cheapest way to move petroleum, but the main water channels into the islands are open only a few weeks a year. A remarkable and simple new ice-breaker appears to offer the solution. Panarctic Oils is so confident of its capabilities that they have bought 51% of the stock of the company that will develop and manufacture it. Furthermore, this new icebreaking technique could eventually change the entire world shipping picture.

The inventor, Scott Alexander of Ottawa, is an arctic expert. He was inspired while watching an iceberg plow majestically through a field of ice. The conventional method of icebreaking is cumbersome and expensive: Specially designed ships ride up on the ice, come down on it with great force to break it and push it under and behind the ship. All too frequently such ice-breakers get stuck in jams as the broken pieces come together and solidify. The new Alexbow, named after its inventor, is like a flared plow with a splinter blade that produces a splitting action. Attached to the front of a ship, it pushes up from the underside of the ice, requiring one-twelfth the force required by a conventional ice-breaker. Broken ice is deflected outward and up and is piled atop the ice pack beside the vessel, leaving a clear channel behind.

An open polar route would put the Arctic Islands within a short distance of the majority of the biggest free world markets. The distance between the center of the Arctic Islands to Northern Europe is less than half the distance from the Middle East to Northern Europe via the Suez Canal and two-thirds less the distance as long as the Canal remains closed and tankers must go around the Cape of Good Hope. The islands are only 4,700 miles from Japan via the polar route as contrasted to a distance of 6,000 miles from the Arabian Gulf to Japan. Canadian Arctic oil could compete easily with foreign imports to the east coast of Canada and the U.S.

Transportation sometimes accounts for as much as 20% of total oil production

costs, so that proximity to market is competitively important. And Canadian Arctic oil would have an advantage over Middle East oil even if it were the same distance to the two biggest markets — Western Europe and Japan — because both Japan and Western Europe are looking for a diversity of supply. They feel at the mercy of the Arab-Israeli conflict, which resulted in the closing of the Suez Canal and an increase in costs of oil to Western Europe.

Furthermore, the Western European countries and Japan have been alarmed at the growth of power of the Organization of Producing Exporting Countries—all Arab countries plus Venezuela and Indonesia—one of whose purposes is to increase the price of oil. The entry of Middle East government oil companies into producing, refining and marketing also has this end in view. Consequently the big consuming countries who are non-producers would welcome a substantial new source of competitive free world oil. The fact that such a new source was available from a country with a stable government dedicated to free-enterprise economics would increase their desire to loosen the bonds of their dependence on the Middle East, which currently accounts for 70% of free world oil reserves and more than a third of free world production.

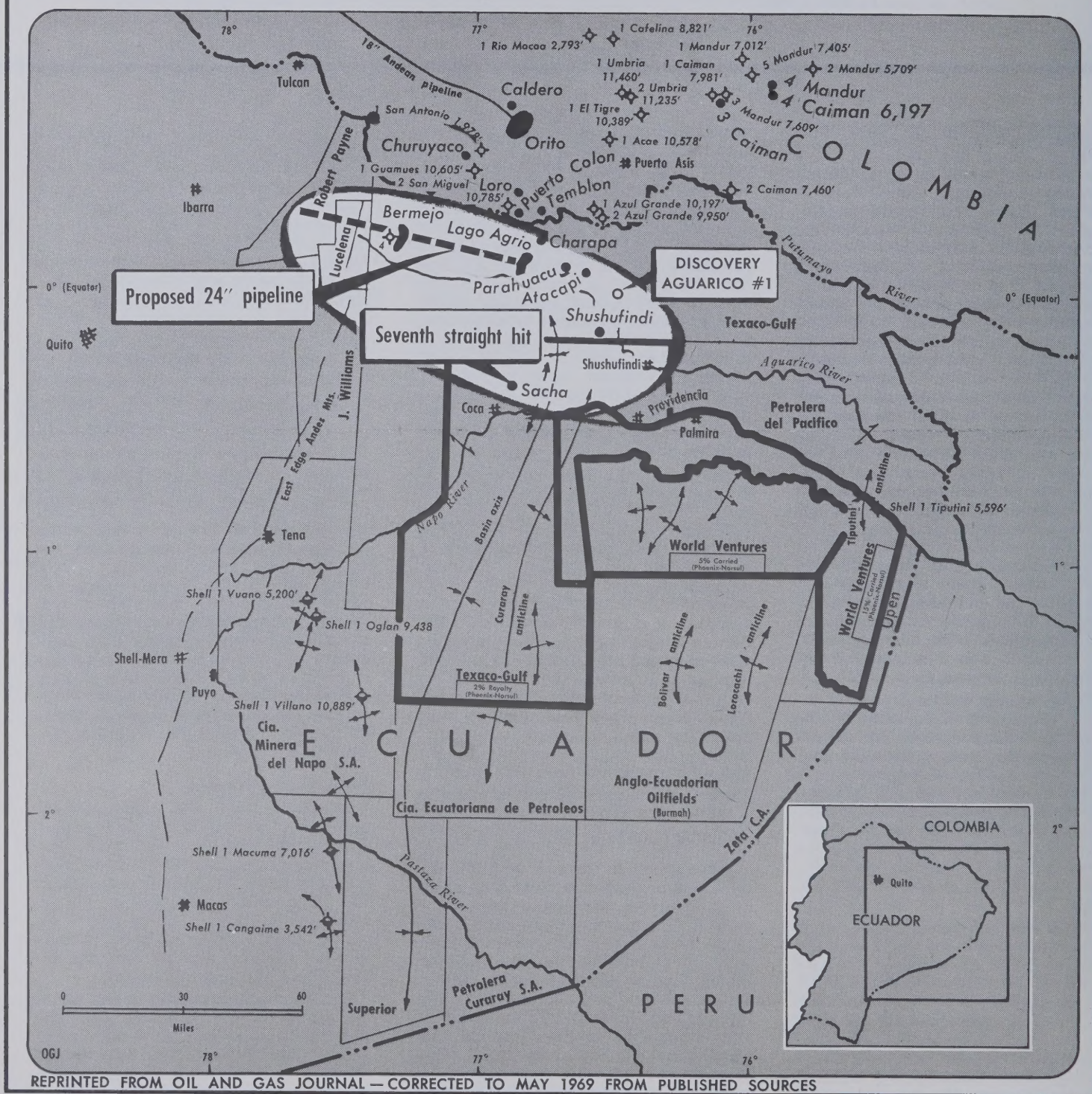
Long-Run Promise

In the long run, the commercial exploration of the Arctic which Panarctic Oils is pioneering promises to add new dimensions to world trade in many other ways beside oil. Dr. Sproule is convinced that large metallic ore reserves will be found in the islands. During field work he has already uncovered some promising lead and zinc deposits. Iron ore deposits have also been discovered.

Finally, the combination of the development of natural resources and conquering the polar ice cap would change world trade patterns. The centuries-old search for a "Northwest Passage" would become a reality with shipping traveling the Arctic route on a year-round basis, making the distance between Tokyo and the English Channel only 6,000 miles.

The day when the Arctic Ocean becomes another crossroads of the world is close enough to talk about.

Eastern Ecuador Oil Concession Map



Phoenix Canada Oil Company Limited

Balance Sheet — 31st December 1968
(with comparative figures for the previous year)

ASSETS

CURRENT:	1968	1967
Cash in Banks	\$ 36,963	\$ 71,945
Deposit Receipt	60,000	16,000
Marketable Securities, at cost (1967 at market)	1,104	1,333
(Market Value — 1968 — \$13,500.00)		
Accrued Interest	2,675	1,009
	<u>\$ 100,742</u>	<u>\$ 90,287</u>
DEPOSITS: (Note No. 1)	\$ 3,869	\$ 3,689
ASSOCIATED COMPANIES:		
Shares, at cost	\$ 1,000	\$ 1,000
Advances	8,862	2,250
Accounts and Notes Receivable	8,282	11,220
	<u>\$ 18,144</u>	<u>\$ 14,470</u>
FIXED:		
Interests in Petroleum and Natural Gas Rights, Permits and/or Leases	\$ 48,662	\$ 48,662
Mining Properties	115,001	115,001
Furniture and Fixtures, at cost	501	183
	<u>\$ 164,164</u>	<u>\$ 163,846</u>
DEFERRED:		
Organization Expenses	\$ 3,770	\$ 3,770
Exploration, Development and Administration Expenses per Schedule "A"	238,598	225,798
	<u>\$ 242,368</u>	<u>\$ 229,568</u>
Total Assets	<u>\$ 529,287</u>	<u>\$ 501,860</u>

LIABILITIES

	1968	1967
CURRENT:		
Accounts Payable and Accrued Expenses	\$ 2,578	\$ 1,848
Bank Loan	2,500	—
	<u>\$ 5,078</u>	<u>\$ 1,848</u>
CAPITAL:		
Authorized: \$5,000,000.00 divided into 5,000,000 shares of \$1.00 each		
Issued — Fully Paid:		
1,921,856 shares of \$1.00 each	\$1,921,856	\$1,921,856
Less: Discount thereon	1,661,496	1,661,496
	<u>\$ 260,360</u>	<u>\$ 260,360</u>
100,000 shares to be issued of \$1.00 each (Notes No. 2 and 3)	\$ 100,000	\$ 90,000
Less: Discount thereon	34,600	32,100
	<u>\$ 65,400</u>	<u>\$ 57,900</u>
Total Capital	<u>\$ 325,760</u>	<u>\$ 318,260</u>
Surplus per Schedule "B"	<u>\$ 198,449</u>	<u>\$ 181,752</u>
Total Liabilities, Capital and Surplus	<u>\$ 529,287</u>	<u>\$ 501,860</u>

See Note No. 3 re Management Incentive Stock Option Plan.

Approved on Behalf of the Board:

S. DONALD MOORE, Director

EVERETT E. OTT, Director

Phoenix Canada Oil Company Limited

Notes to Balance Sheet 31st December, 1968

- Note No. 1* These consist of:
- (a) \$1,000 Government of Canada Bond — 4½% 1983 deposited with the securities authorities in the Province of Quebec. (Cost — \$939).
 - (b) Deposit of \$2,750.00, plus interest of \$180, in connection with possible legal costs.
- Note No. 2* Included under share capital to be issued is 40,000 shares which are to be issued at a discount of 50% as consideration for the 1965 acquisition of 15 Arctic Island Permits aggregating 493,215 acres and \$25,000 Government of Canada 3% Perpetuals.
- Note No. 3* Pursuant to a Director's Resolution dated 17th April, 1964, the Company has reserved 100,000 shares of its capital stock for the purpose of granting Management Incentive Stock Options to personnel engaged in the exploration and development of the Ecuador Concession and it will grant such options to such personnel at a price of not less than 50¢ per share nor less than 20% under the market price prevailing at the time such options were granted in 1964, such options to extend over a three year period and to expire no later than 30th June, 1969. There has been an allocation of these shares and to date options on 60,000 shares at 75¢ per share have been exercised. A previous allocation of 40,000 of these shares exercisable at 85¢ per share was subsequently cancelled by the Company. The Company has claimed non-performance of management responsibilities by the optionee. The optionee has instituted legal proceedings claiming the right to exercise an option on part or all of the said 40,000 shares.

Auditor's Report

To the Shareholders of

PHOENIX CANADA OIL COMPANY LIMITED:

I have examined the Balance Sheet of Phoenix Canada Oil Company Limited as at 31st December, 1968, and the Statements of Deferred Exploration Development and Administration Expense, Surplus and Source and Application of Funds for the year then ended. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances. In my opinion these financial statements present fairly the financial position of the Company as at 31st December, 1968, and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
22nd May, 1969.

CECIL B. BELL,
Chartered Accountant.

Phoenix Canada Oil Company Limited

EXPLORATION, DEVELOPMENT AND ADMINISTRATION EXPENSES

FOR THE YEAR ENDED 31st DECEMBER, 1968

(with comparative figures for the previous year)

	SCHEDULE "A"	
	1968	1967
EXPLORATION AND DEVELOPMENT — MINING CLAIMS		
Government Fees and Taxes	\$ 180	\$ 180
Travel	—	350
	<u>\$ 180</u>	<u>\$ 530</u>
EXPLORATION AND DEVELOPMENT — OIL AND GAS LEASES		
Geophysical Reports and Surveys	\$ 4,085	\$ 4,500
General Office Expense	—	458
Oil Reservation Fee	—	300
Telephone and Telegraph	—	236
Travel Expense	—	456
	<u>\$ 4,085</u>	<u>\$ 5,950</u>
ADMINISTRATION AND GENERAL		
General Office Expenses	\$ 1,930	\$ 687
Government Fees	95	60
Legal and Audit	2,000	1,983
Registrars' Fees	1,380	1,054
Telephone and Telegraph	708	355
Shareholders' Information	2,729	2,103
Travel Expense	1,116	602
Secretarial Services	2,612	2,134
Rent	1,151	600
Listing Fees and Expenses	100	100
Interest Charges	—	85
	<u>\$ 13,821</u>	<u>\$ 9,763</u>
Less: Dividends Received	—	68
Interest Earned	5,286	3,244
	<u>\$ 8,535</u>	<u>\$ 6,451</u>
Total for Year	<u>\$ 12,800</u>	<u>\$ 12,931</u>
Add: Accumulated Expenses to end of previous year	225,798	212,867
Total Expense per Balance Sheet	<u>\$238,598</u>	<u>\$225,798</u>

STATEMENT OF SURPLUS

FOR THE YEAR ENDED 31st DECEMBER, 1968

(with comparative figures for the previous year)

	SCHEDULE "B"	
	1968	1967
Balance at beginning of year	\$181,752	\$184,465
Add: Profit or (loss) on sale of investments during the year	16,697	(2,713)
Balance at end of year	<u>\$198,449</u>	<u>\$181,752</u>

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31st DECEMBER, 1968

(with comparative figures for the previous year)

	1968	1967
SOURCE OF FUNDS		(Restated)
Proceeds of Shares to be issued	\$ 7,500	\$ 14,250
Interest and Dividends	5,286	3,312
Recoverable Performance Bonds	—	8,800
Profit on sale of Investments	16,697	—
	<u>\$ 29,483</u>	<u>\$ 26,362</u>
APPLICATION OF FUNDS		
Exploration, Development and Administration Expenses	\$ 18,086	\$ 16,243
Purchase of Shares in and Advances to Associated Companies	3,674	14,470
Deposit re Legal Costs	180	2,750
Loss on sale of Investments	—	2,713
Purchase of Fixed Assets	318	183
	<u>\$ 22,258</u>	<u>\$ 36,359</u>
Increase (Reduction) in Working Capital	\$ 7,225	\$ (9,997)
Working Capital at first of year	88,439	98,436
Working Capital at end of year	<u>\$ 95,664</u>	<u>\$ 88,439</u>

